

## Should You Consider a Roth Conversion?

Whether it's a downturn in the market or planning to cut your heirs' tax bill, here are five reasons a Roth IRA conversion might make sense.

The key difference between traditional IRAs and Roth IRAs is that a traditional gives you a tax break on your contributions, while the Roth offers its tax advantages on the distributions. Since you can convert an existing traditional IRA to a Roth, this difference can be a valuable part of your tax planning. Here are five good reasons to convert to a Roth:

### 1. COUNTERACTING PORTFOLIO LOSSES

The recent bear market has frustrated many investors, but if and when those portfolio values rebound, you could have a new problem: The recovery in value will be fully taxable when it's eventually withdrawn from the IRA. However, by converting your traditional IRA to a Roth, the tax will be assessed on the value on the date of the conversion, and the rebound can occur tax-free. Converting while the asset values are down can result in a lower tax impact.

### 2. ANTICIPATING HIGHER TAX BRACKETS

You might expect your tax bracket to be higher in retirement than your current tax rate – for example, if you've accumulated significant savings in your retirement accounts or expect much greater earnings later in your career. In that case, you might prefer to pay tax on your savings now while you're in a lower bracket, and then access those funds tax-free in retirement when you're in that higher bracket.

### 3. LOOKING FOR A LONGER GROWTH HORIZON

Traditional IRAs come with required minimum distributions (RMDs) after you reach the age of 72, but Roth IRAs have no RMD obligations. So money in a Roth can stay invested in the stock market longer, giving your assets more opportunity to grow. ►

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### **4. BAILING OUT YOUR HEIRS**

If your traditional IRA ends up being passed to an heir, they will also owe taxes on their withdrawals from the account. By converting to a Roth, those distributions become tax-free, so paying the tax on your savings is effectively a gift to your heirs.

### **5. PAYING FOR MEDICARE**

If you are enrolled in Medicare Part B or D and your modified adjusted gross income (MAGI) is above a certain threshold, you pay a surcharge on top of your monthly Medicare premium. While withdrawals from a traditional IRA are included in your MAGI, withdrawals from a Roth IRA are not. By converting to a Roth IRA, you may be able to minimize or even avoid that monthly surcharge.

But keep in mind the biggest drawback to a Roth conversion: you must pay income taxes on any pre-tax funds you convert in the year you make it. Given that caveat, if you think you could benefit from exploring a Roth, give your Baird Financial Advisor a call to discuss the strategy that works best for you.

Please reach out if you or anyone you know would benefit from discussing this topic further.

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